

Introduction to Paper Check Conversion

The Financial Management Service (FMS) has been operating its Paper Check Conversion (PCC) program since September 2001. The PCC process has proven to be a highly automated multi-redundant system that greatly improves the collection, reconciliation, research and reporting processes associated with Federal Agency check collections. Based on its success to date, FMS chose to include PCC in its Invitation for Expression of Interest document for the General Lockbox Network Rebid. FMS expects that lockbox cashflows operated by Financial Agents (FA) using the PCC system will provide a number of benefits to the Federal Government. Item and transaction information, whether settled through the Federal Reserve Bank of Cleveland (FRB-C) or by an FA, will be imaged, transmitted to, and available for research, viewing, and reporting in the PCC image archive. The PCC image archive will provide one central repository to Agencies for all PCC-related transactions, whether processed at over-the-counter sites or through a lockbox. The FRB-C will originate all ACH transactions, create all Image Replacement Documents (IRD), as well as operate all other aspects of the PCC system, while FMS is responsible for management and oversight.

FMS recognizes that implementing PCC will require development on the part of the FA to process and transmit the images and information to the Treasury Web Application Infrastructure (TWAI) where the core of the PCC application, the Electronic Verification & Image System (ELVIS), resides. ELVIS resides on the TWAI and is operated by the Federal Reserve Bank (FRB). ELVIS is made up of three components:

1. Central Image and Research Archive (CIRA), where all images, financial and remittance information are stored for seven years or longer if required by statute or court order;
2. FMS Verification Database, which houses transaction status information and allows modification of the data; and,
3. Reporting Tool, which allows PCC users access to various cached or ad hoc reports.

Access to each part of ELVIS is subject to strict viewing and editing controls.

Remittance Document Imaging is a digital electronic representation of a remittance document, which may also be stored in the CIRA or the Imaging Enterprise Platform. This process eliminates forwarding paper copies of remittance documents to the agencies, which facilitates retrieval of document and payment information much faster. QLPs will continue to send data files to agencies or the Central Reporting System on a daily basis where applicable.

General Qualified Lockbox Processor Information

At least one month prior to implementation the FA and the Federal Agency (Agency) must complete the PCC Agency Cashflow Profile (ACP). The ACP defines FA and Agency users to the system, what information is accessible by various users, details of remittance data fields, anticipated timing of file generation, transmission, and reporting, as well as many other specifics associated with the cashflow.

The QLP shall be responsible for moving from a paper-based to a PCC-based process as directed in writing from FMS and/or the SOW at or below the ceiling price contained in the QLP's Pricing Response.

A QLP may use its existing or purchase new equipment when processing PCC cash flows. The only requirement is that the PCC transactions are formatted and transmitted according to the PCC specifications.¹

¹ QLPs may use Treasury's off-the-shelf PCC system for low volume lockbox operations, but are encouraged to adopt their own systems to the requirements of PCC.

The QLP will need to modify or develop its system to generate and separately transmit four files to ELVIS, and to be able to receive and process two files from ELVIS. 2

Files Transmitted to ELVIS:

- Image File – Containing all check and related images approved for the cashflow
- Item File – Containing all MICR and financial information whether settled by FRB-C or the FA
- Remittance Information File – Containing Agency defined, agency unique information that is manually keyed or otherwise captured during FA processing
- FA Settled Item Status Update File – Containing status on items settled by the FA. These status descriptions include “Collected”, “Represented”, and “Uncollected”. The status for all items is made available in ELVIS.

Files to be Received from ELVIS:

- Acknowledgement (ACK) File – Containing notification of receipt of an item, image, or remittance file
- FMS Verification File – Containing information regarding known closed accounts in the PCC system

1. Each transaction is linked to its subparts – images, financial information, and agency specific remittance information – by the same unique identification number (IRN). Assigning the same IRN to the individual sections of the transaction will allow ELVIS to group these components together for later retrieval. The IRN sequencing is defined in Appendix B.
2. Items must be flagged to reflect whether settlement is performed by the FA, will be performed by FRB-C, or will not be settled at all.
3. Special Handling of many checks to one remittance or one check to several remittances must also be accommodated.
4. Correspondence will not be imaged and stored in ELVIS at this time. FA’s will follow existing agency SOPs for handling.

The QLP shall perform Paper Check Conversion (PCC) lockbox services in accordance with 31 CFR Part 210, as may be amended from time to time, the “United States Treasury Financial Management Service *Paper Check Conversion Standard Operating Procedures (PCC SOP)*,” October 8, 2003.³ (See IEI, Attachment C “PCC SOP” on FMS’ Web site www.fms.treas.gov/rebids/attachments.) FMS may revise the standard operating procedures from time to time with at least 60 days advance written notice to the QLP for a material change and 7 days notice for a non-material change or earlier if upon the mutual agreement of the parties.

2 The files defined above do not include the output files due to an agency, if applicable. Creation and delivery of these files remain the responsibility of the FA. At a future date, the Agency output files may be generated from an FMS system.

3 Capitalized terms and acronyms not defined herein have the meaning set forth in the SOP. The attached PCC SOP does not directly apply to the QLPs, but the final PCC Lockbox SOP will be updated to be substantially similar to that of the Agency’s PCC SOP.

Processing Steps

1. The QLP will Receive and Open Mail

Mail is received at the lockbox processing facility and separated in lockbox number order. In select cases, a Post Office (PO) Box is used and no sorting is necessary. Then the mail is distributed to the processing desk(s) where the following occurs:

- a. Contents of the envelope are removed and reviewed for check negotiability.
- b. Check amounts are compared to the voucher amounts.

2. Sort Mail

The QLP will sort and process all items by the following three categories listed below and create the necessary files. Items must be flagged to reflect whether settlement is performed by the QLP, will be performed by FRB-C, or will not be settled at all:

Items settled through the FA:

- On Us Items – items drawn on the FA
- PCC Ineligible Items – items to include money orders, cashier checks, third party checks, credit card checks, obligations of a financial institution, checks drawn on a state or local government, or Treasury Checks.⁴ The *PCC Standard Operating Procedures (PCC SOP)* is kept up to date with listings of items that are not PCC eligible.

Items not settled:

- Agency Stop List/Do Not Process Items – items which the agency or FA have determined to be unprocessable – including fraudulent or account closed items. These items may be provided directly from the Agency or through a PCC system interface and then added to the FMS Verification Items file.
- Research Items – items that can not be immediately processed for settlement due to an inability to identify/confirm payment amount, or for other reasons which the FA might determine in accordance with the cashflow or PCC SOP. Research items will be transmitted to the image archive but they will not be settled. An interface will allow the settlement flag to be changed and the dollar value and/or remittance information to be changed once the research has been completed. Once the flag is changed to reflect settlement, the item will be included for settlement. Items where the settlement flag has been changed will be reflected in the end-of-day balancing report described later in this document.
- FMS Verification Items – items that should not be processed for settlement by the QLP because they match against a negative file from ELVIS. Initially this file may contain only Account Closed and Fraudulent Information from personal accounts. Known commercial closed account records will be included at a later date, as well as other verification items.

Items settled through FRB-C:

- PCC Eligible Items - all personal and business negotiable instruments not included in the above PCC ineligible listing. FRB-C will create Item Reference Documents (IRDs) for any items included in this category that are not capable of being converted to ACH.

⁴ Items considered to be PCC Ineligible are subject to changes based on FMS's current NPRM for 31 CFR Part 210 and the Check Truncation Act, as well as other legal and regulatory changes.

- Settled Research Items – items which are eligible for immediate FRB-C settlement, but require some investigation to properly apply the payment – includes items without a coupon or items where the required identification number can not be immediately determined.

3. Data Entry

For all items scanned through the PCC system, the QLP will be required to enter the dollar amount and agency specific data from remittance documents. If the QLP's internal systems require encoding of an item, then FMS sees this as equivalent to entering the dollar amount. Therefore, FMS expects to be billed only once for capturing the dollar amount.

4. Image/MICR Data Capture

The QLP will be required to capture the electronic image of the check, and MICR relevant information. Additional fields that will also be required are the following:

- A flag for each financial item relating to method of settlement. Items will be flagged for settlement – meaning the FRB-C or FA will perform settlement, or for non-settlement – meaning that the item will not be settled.
- Dollar value
- The unique IRN
- The cashflow represented by its Agency Location Code (ALC) and a two digit unique identifier (ALC+2)
- An indicator representing an ARC or CCD payment type
- The Government Wide Accounting Classification Key or “C-Key”
- The capture date and time
- The name of the operator processing the transaction

The QLP will be responsible to link every record component, whether remittance/negotiable instrument image, remittance information or financial information, to a specific IRN. ELVIS will ensure that all items associated with any given IRN will be available for research and viewing as one transactional group. For unique generation formats see the *PCC Technical Specifications Document, Appendix B “Unique Identification Number Generation (IRN).”*

5. File Creation

The QLP will provide the following files to ELVIS in order to facilitate the transmission and processing of various transaction components. The image and remittance information is used to create the following files mentioned below, and must be transmitted to ELVIS in specified times of the day and formats. Refer to the *PCC Technical Specifications Document, Appendix A “File Formats.”*

- Image File:** The image file will be a delimited file. Electronic images must be in the following order within the image file: front of check, back of check, and remittance document(s). The standard image quality expected for PCC payments is 300dpi. Each image file will contain images, the associated Item Reference Number (IRN), and a count of the total images contained in the file.
- Item File:** The item file will be a fixed field file containing the MICR and financial information from negotiable instruments processed in the lockbox. This file can be comprised of one or more batches. Each batch is comprised of payments from a single

cashflow. The file and batches are not required to be of any defined size. The total count of items and dollar value within each file will be verified by ELVIS. Total counts and dollar amounts included in the item file are recommended to be generated from an independent source at the QLP and not a total of the file itself. ELVIS will do a count of items and totaling of dollar values to ensure that the file is balanced.

- c. **Remittance Information File**: The remittance information file will be in xml format. The remittance information will be required to be detailed by name, length of field, and what type of characters comprise the field (including special characters). Examples of remittance information might include invoice number, form number, or customer ID. This information will be conveyed to FMS and FRB-C via the ACP (Agency Cashflow Profile) completed by each QLP and Agency outlining details of set up for each cashflow. If at any time these fields are changed, notification must be provided to FMS and FRB-C at least 30 days prior to implementation.

The remittance information record will be capable of containing up to 24 unique fields, and must have all edit checks performed at the lockbox. No edit checks for field content will be performed by ELVIS.

6. FMS Verification File

The PCC system has the ability to accumulate information on checks received on accounts that have been closed. Therefore, it will be the responsibility of the QLP to code for receipt and implementation of this file. ELVIS will make this data available in an xml file format downloadable via Connect: Direct with Secure Plus Option. The file format for this FMS Verification file is illustrated in the *PCC Technical Specifications Document, Appendix A "File Formats."* This file will be available for import on a daily basis with updates of new items reflecting a status of closed account received within the previous 24 hours. The QLP shall have the capability within its software to request receipt of the entire closed verification file for instances when an entire reload of the file is necessary.

7. End of Day Balancing

The QLP will review and balance all files before transmitting to ELVIS. The QLP will also be required to receive an acknowledgement file, generated by ELVIS indicating if the file is in balance or out of balance. (See *PCC Technical Specifications Document, Appendix A "File Formats"* for format of Acknowledgement file)

If the file is out of balance, a notification will be delivered to FRB-C informing the processing personnel that an out of balance situation has occurred, and that a corrective action is expected. Selected scenarios have been developed indicating whether a correction can be performed by FRB-C or whether a corrected file must be submitted by the QLP. These scenarios can be found in the *PCC Technical Specification Document, Appendix C "Out of Balance Conditions and Correcting Party."*

At a predetermined "end of processing day", currently anticipated to be 11:00 pm ET, ELVIS will generate a cached balancing report. This information will also be available to the FA via an ad hoc report approximately 2 hours after the last image, item, or remittance file is received and

accepted by ELVIS. The Balancing Report will be the responsibility of the FA to pull, review and determine any end of day out of balance conditions such as missing financial information or images for any particular unique number. It will be the responsibility of the QLP to contact the FRB-C regarding any out of balance conditions reflected on the report to determine appropriate action.

Reason	Correcting Party
<i>Totals in either file do not match total calculated by ELVIS</i>	FRB-C
<i>Duplicate IRN</i>	FA
<i>Group identifier out of sequence</i>	FA
<i>Invalid File Format data elements</i>	FA
<i>Hashing Error</i>	FA
<i>Invalid image format and quality</i>	FA
<i>Duplicate</i>	FRB-C
<i>Unreadable or corrupt</i>	FA
<i>All mandatory fields must be completed</i>	FA
<i>Locations (either FA or ALC+2) not recognized</i>	FA
<i>File or Batch Headers/Trailers incomplete</i>	FA
<i>Invalid File Format</i>	FA

8. Batch Transmission and Communication

The QLP will be required to transmit the Image, Remittance and Item files throughout the processing day to ELVIS by established cutoff times. (See *PCC Technical Specifications Document, Appendix F “PCC Processing Timeline.”*)

The communication method will be via Connect: Direct with a Secure Plus Option regardless of the file size. It is a responsibility of QLP to obtain and maintain Connect: Direct with a Secure Plus Option. All File Communication will occur between the QLP and ELVIS by the times specified by FMS. Depending on usage, it is not required that the line be dedicated.

9. CA\$HLINK II Reconciliation

The FRB creates the SF 215s, creates the Deposit Ticket number and enters the ACH deposit total into CA\$HLINK II for PCC eligible items. The FRB emails or makes available online SF 215s/5515s to the agency. Copies of the SF 215s are emailed to the QLP to be kept with the associated converted items.

The QLP reconciles the FRB’s SF 215 with the converted total on Day 2 and reports any discrepancy to FMS. (See *PCC SOP Appendix G “Reporting and Balancing with CA\$HLINK”* and *“Adjusting Incorrect Entries”* in the IEI Attachment C on FMS’ Web site www.fms.treas.gov/rebids/attachments).

For those items that were settled through the QLP, the QLP will be required to create a SF 215 for total amount and follow the procedures as specified in the lockbox agreement.

10. Retention of Files and Documentation

The QLP will be required to keep copies of all documentation for a minimum of 3 business days, but no longer than 14 calendar days, presuming all balancing and reconciliation has been complete.

11. Processing of Returns

Return processing for items settled by the QLP (refer to Step 2 in these processing steps) will be the responsibility of the QLP, as stated in the agreement for that particular cashflow. The QLP will submit an Item Status file to ELVIS, to reflect the current status of all returned items. The copy of the format for the Item Status file is specified in the *PCC Technical Specifications Document, Appendix A "QLP/FA Settled Item Status File."*

12. Destruction of Checks

Within 14 calendar days of review of completed SF 215, the QLP will destroy the original converted items but keep a copy of the SF 215 for its record.

13. Customer Support

The QLP will provide customer service for those items that were settled by the QLP. Any PCC-related inquiries should be directed to the FRB Customer Support Line. (*See PCC SOP*)